

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF RATES OF)
KENTUCKY-AMERICAN WATER COMPANY) CASE NO. 9482

ORDER ON REHEARING

On July 8, 1986, the Commission entered an Order granting Kentucky-American Water Company ("Kentucky-American") an increase in revenues of \$1,510,714 annually. On July 28, 1986, the Consumer Protection Division in the Office of the Attorney General ("AG") filed a petition for rehearing of several issues and on August 18, 1986, the Commission issued its Order granting rehearing of the following issues: fire protection revenues; treatment of revenues from the Versailles project; capitalization of workers' compensation premiums; and operating revenues.

In its application, Kentucky-American increased its operation and maintenance expenses to reflect both the normalization of rate changes during the test period and customers at the end of the test period. However, with regard to fire protection revenue, \$59,016 was due to the normalization of rates and thus should not have been applied in its proposed adjustment to normalize expenses. The Commission has therefore reduced Kentucky-American's operation and maintenance expenses by \$18,284 using the 30.98 percent factor previously used, resulting in an increase of \$9,157 to net operating income.

The AG, in its petition for rehearing submitted that the revenue impact from the Versailles Project had not been completely negated, as was Kentucky-American's intention, because Kentucky-American's estimated revenues from the project were not sufficient to offset expenses.¹ The Commission concurs with the AG and thereby reduces Kentucky-American's operation and maintenance expenses by \$4,380 resulting in an increase of \$2,194 to net operating income.

The AG argued in its brief and petition for rehearing that Kentucky-American's proposed capitalization of workers' compensation premiums was inadequate. The Commission in its Order in this proceeding found the proposed level of capitalization to be adequate; however, in its response to the Commission's Order for Rehearing, Kentucky-American admitted that it should have adjusted its expenses by \$6,559² to reflect additional premiums that should be capitalized. The Commission, accordingly, has reduced Kentucky-American's operating expenses by \$6,559 resulting in an increase of \$3,285 to net operating income.

In addition, the AG argued in its petition for rehearing that the Commission improperly set aside an agreement reached between the AG and Kentucky-American, whereby Kentucky-American agreed to reduce its "revenue request" in the amount of \$143,553. Although the parties reached this agreement, neither party filed any

¹ AG's Petition for Rehearing, page 4.

² Kentucky-American's Response to Order for Rehearing, dated August 18, 1986, page 4.

exhibits with the Commission to support the agreement or to demonstrate the impact of the agreement on revenue requirements.

In the absence of any documentary support, on initial consideration, the Commission was compelled to interpret the agreement based on the transcript of evidence and concluded that the parties had agreed to a reduction in Kentucky-American's pro forma operating revenues for unclear reasons. Such an agreement would have resulted in rates to Kentucky-American's customers higher than would have been the case otherwise. Therefore, the agreement was rejected.

On rehearing, the parties agreed that the intent of the agreement was not to reduce Kentucky-American's pro forma operating revenues, but, instead, to increase Kentucky-American's pro forma operating revenues, based on the facts that Kentucky-American "did not adjust its going-level [pro forma] revenues at present rates by \$143,553 nor did it adjust the billing units to produce the additional \$143,553 in its billing analysis."³ Neither of these facts was clearly represented in the record.

On rehearing, considering the comments of the parties and the exhibits filed in support thereof, the Commission concludes that Kentucky-American understated its pro forma operating revenues in the amount of \$143,553. Accordingly, the Commission has increased Kentucky-American's test-period operating revenues, resulting in an increase of \$72,089 to net operating income.

³ Ibid., page 6.

The revenue increase found reasonable as a result of the Commission granting rehearing of these issues is reduced by \$173,346 from \$1,510,714 to \$1,337,368. To effect the revenue reduction the Commission has reduced Kentucky-American's customer rates and charges accordingly.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. Kentucky-American should reduce its rates and charges for water service rendered on and after the date of this Order as set out in Appendix A.

2. All provisions of the Commission's Order of July 8, 1986, in this proceeding not specifically adjusted herein should remain in full force and effect.

IT IS THEREFORE ORDERED that:

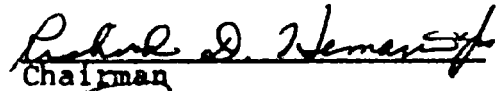
1. The rates and charges in Appendix A are the fair, just and reasonable rates and charges to be charged by Kentucky-American for water service rendered on and after the date of this Order.

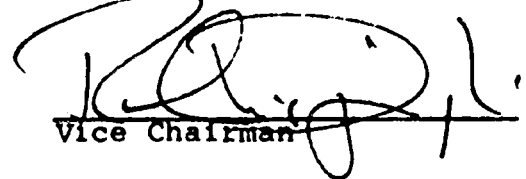
2. All provisions of the Commission's Order in this proceeding issued July 8, 1986, not specifically amended herein shall remain in full force and effect.

3. Within 30 days from the date of this Order, Kentucky-American shall file with this Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 15th day of October, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9482 DATED 10/15/86

The following rates and charges are prescribed for the customers in the area served by Kentucky-American Water Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

CLASSIFICATION OF SERVICE

SERVICE CLASSIFICATION NO. 1

METER RATES

The following shall be the rates for consumption, in addition to the service charges provided for herein:

	<u>1,000 Gallons Per Month</u>	<u>Rates Per 1,000 Gallons</u>	<u>100 Cubic Feet Per Month</u>	<u>Rate Per 100 Cubic Feet</u>
For the first	12	\$1.33733	16	\$1.003
For the next	588	1.04800	784	0.786
For all over	600	0.94666	800	0.710

	<u>1,000 Gallons Per Quarter</u>	<u>Rates Per 1,000 Gallons</u>	<u>100 Cubic Feet Per Quarter</u>	<u>Rate Per 100 Cubic Feet</u>
For the first	36	\$1.33733	48	\$1.003
For the next	1,764	1.04800	2,352	0.786
For all over	1,800	0.94666	2,400	0.710

SERVICE CHARGES

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

<u>Size of Meter</u>	<u>Service Charge</u>	
	<u>Per Month</u>	<u>Per Quarter</u>
5/8"	\$ 4.52	\$ 13.56
3/4"	6.78	20.34
1"	11.30	33.90
1 1/2"	22.60	67.80
2"	36.16	108.48
3"	67.80	203.40
4"	113.00	339.00
6"	226.00	678.00
8"	361.60	1,084.80

CLASSIFICATION OF SERVICE

SERVICE CLASSIFICATION NO. 3

RATES

<u>Size of Service</u>	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
4" Diameter	\$ 8.44	\$101.28
6" Diameter	18.99	227.88
8" Diameter	33.77	405.24
12" Diameter	75.96	911.52

CLASSIFICATION OF SERVICE

SERVICE CLASSIFICATION NO. 4

RATES FOR PUBLIC FIRE SERVICE

	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
For each public fire hydrant contracted for or ordered by Urban County, County, State or Federal Governmental Agencies or Institutions	\$18.99	\$227.88

RATES FOR PRIVATE FIRE SERVICE

For each private fire hydrant contracted for by Industries or Private Institutions	18.99	227.88
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